

## SIGNIFICANCE OF SYNERGISED EFFECT OF SUPPLY CHAIN COLLABORATION IN INDIAN CONTEXT: A REVIEW

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### ABSTRACT

India is an emerging economy and the industrial growth is comparatively high in the country during the past few decades. The globalization scenario has forced Indian corporates to be competitive to overcome the fresh challenges. Many organisations adopted new management practices for excellence. Emergence of supply chain management (SCM) concept in the late 20<sup>th</sup> century has given new insights into the development of supply chain relation. During the past few years, importance of collaboration between supply chain partners has very much conceived by the corporate world. Supply chain synergy is the concept developed in this context. Supply chain synergy resulted in reduced costs on account of collaborative efforts to improve the efficiency of supply chain.

**KEYWORDS:** Supply Chain Management, Supply Chain Relationship, Collaborative Supply Chain, Supply Chain Synergy

### INTRODUCTION

#### SUPPLY CHAIN MANAGEMENT

A *supply chain* is a network of facilities and distribution options that performs the functions of procurement of raw materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers. Supply chain exists in both service and manufacturing organizations.

*Supply Chain Management* is a set of approaches utilized too efficiently to integrate supplier, manufacturer, and warehouse and stores so that goods is produced and distributed at right quantities, to the right location and at the right time, in order to minimize system under costs while satisfying the service level requirements- (*Levi Simchi, Designing and Managing the Supply Chain*). SCM is the management process that deals with inbound and outbound flows, from the perspective of focal organization, its suppliers and its customers. This means fundamental aspect of SCM is the consideration of not just the cost and profit goals of one company (the focal organization), but of all the companies involved in managing the supply chain.

#### SUPPLY CHAIN RELATIONSHIP

There are drivers and facilitators behind any kind of relationship, whether it is family, social or corporate. Drivers are the compelling reasons to partner. All parties in the supply chain believe that they will receive significant benefits in one or more areas and that these benefits would not be possible without a relationship. Facilitators are the supportive corporate environmental factors that enhance relationship growth and development. They are the factors that, if present,

can help to ensure the success of the relationship.

### **3C FRAME WORK OF SUPPLY RELATIONSHIP**

The 3C frame work in supply chain relationship adopted by industries is cooperation, coordination and collaboration. (*International Journal of Interscience Management Review (IMR) ISSN: 2231-1513 Volume-2, Issue-2, 2012.*) The related terms are often used interchangeably in Indian environment.

In the context of SCM, cooperation emphasizes mainly the alignment towards a common goal and a shared purpose. The notion of “working together” in the context of cooperation does not suggest a close operational working relationship, but rather a positive attitude towards each other.

Coordination refers to a more direct, active cooperation. It is defined as “the act of making arrangements for a purpose” & “the harmony of various elements.” Compared to cooperation, coordination indicates an interactive, joint decision making process, where separate entities influence each others’ decisions more directly.

Collaboration is defined as working together or with someone else for a special purpose or simply as working with someone. Collaboration requires common objectives and efforts; whereas coordination is mainly conducted by sharing the right information and the same policies. Collaboration indicates a joint, interactive process that results in joint decisions and activities.

### **CHANGING SCENARIO**

Diversification through business integration, both backward and forward were supposed to be the integral part of strategic planning of Indian industry till 1990s. This had reduced the magnitude of dependency on others for raw material requirement and distribution and logistics functions. The post liberalization and globalization period had opened several new avenues for the entrepreneurs and new industrial segments were developed as a result.

As manufacturing entities strive to focus on core competencies and become more flexible, they have reduced their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other firms that can perform the activities better or more cost effectively. The effect has been to increase the number of companies involved in satisfying consumer demand, while reducing management control of daily logistics operations. Less control over the raw materials and more supply chain partners increased the relevance of supply chain management in Indian business world during early years of 21<sup>st</sup> century itself.

### **FROM COOPERATION TO FULL COLLABORATION**

The initial period had witnessed mere cooperation between the supply chain partners. These relationships were either intra-company or inter-company among supply chain. But, the increased competition in the domestic market and challenges from the global giants forced the Indian corporate to have a deep and long term commitments among supply chain partners. Firms willingly modified their business objectives and practices to help achieve shared long-term goals and objectives.

The extent of such collaboration was primarily between suppliers, manufacturers, distributors and retailers and was being termed as vertical collaboration. This has paved way forward to full collaboration in recent years. This has been achieved by coordination with in the supply chain tier together with coordination across the supply chain tiers.

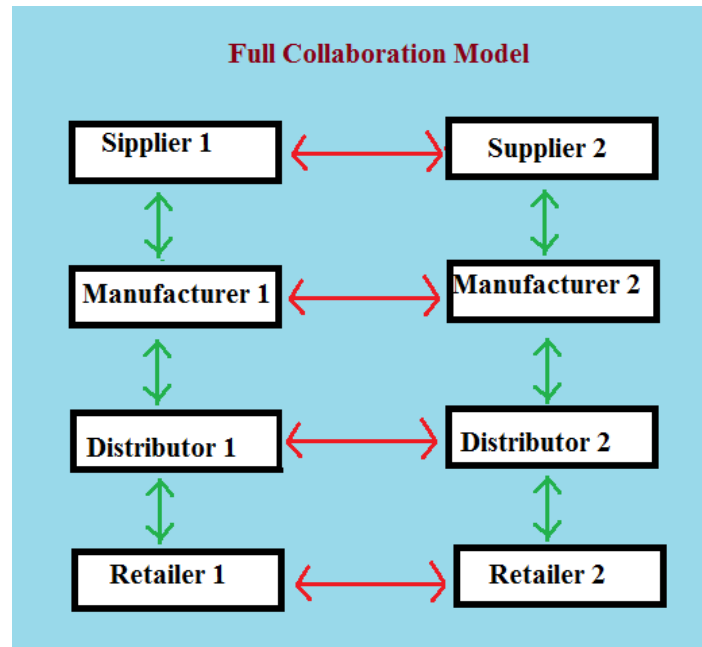


Figure 1

## SUPPLY CHAIN SYNERGY

The increased effectiveness that results when two or more people or businesses work together is called as synergy. (*thefreedictionary.com powered by Farlex*)

Supply chain synergy can be described as collaborative interaction and relationship among the different stake holders in a supply chain that creates an enhanced combined effect. (*Mentzer John T., Fundamentals of Supply Chain Management- Twelve Drivers of Competitive Advantage*). The concept is that the value and performance of two companies combined will be greater than the sum of the separate individual companies.

Synergised effect of supply chain collaboration and its integration has lead consultants and corporates to treat the supply chain synergy as a new *mantra* for corporate excellence.

## WAYS TO ACHIEVE SUPPLY CHAIN SYNERGY

In a collaborative system supply chain synergy can be achieved through:

- Strengthened trust and interdependence
- Increased sharing of information, ideas and technology
- Working toward the goals of the supply chain and not the individual companies

The integration and collaboration of supply chains should be planned in such a way so that it should boost the above factors.

## FORMS OF SUPPLY CHAIN SYNERGY

Supply chain synergy occurs in many forms in collaborative relationship. Ultimate result of supply chain synergy is reduced cost and increased stakeholders satisfaction. SCS occurs in many forms. These include --

- **Reduction in Inventory:** Proper scheduling and sharing of information will always facilitates reduced inventory at any point of the supply chain. The synergized effect will be much more in the organizations adopting the systems like Just-in-Time, Vendor Managed Inventory, Quick Response Systems etc.
- **Reduction in Personnel:** Effective collaborations help to reduce the duplication of many works at different tiers and thus avoid engagement of additional manpower.
- **Improved Customer Service:** Provision to provide right quality products or services to customers at right time improves the customer satisfaction.
- **Better Delivery through Reduced Cycle Times:** Reduced lead time as a result of sharing of information, ideas and technology between supply chain partners ease better delivery.
- **Increased Speed to Market New Products:** R&D sharing between the manufacturer and suppliers will sunergise the new product development effort.
- **Focus on Core Competencies:** No need to worry on the raw material supply or logistics part as the same will be carried out by collaborative partners.
- **Competitive Advantage over Other Supply Chain:** Reduced cost and increased quality of final product or service as a result of integrated supply chain always win over other supply chains.
- **Increased Share Holder Value:** Capturing more market share and lower costs in turn will increase the return on investment
- **Public Image:** Thanks to various factors discussed above the public image of these organizations are incredible.

## A CASE OF MCDONALD'S INDIA

Mc Donald's India is the multinational operating in India in the quick service restaurant (QSR) segment. Mc Donald's took around 6 yrs to setting an integrated supply chain in India before starting its routine operations. Through its unique cold chain, they cut down its operational wastage and are also maintaining the freshness and nutritional value of raw materials and finished food products. Mc Donald's India has around 40 suppliers. Their major suppliers include Cremica Industries, Taloja & Noida for Buns, Mrs. Bectors, Ludhiana for special sauce, Vista Processed Foods, Taloja for vegetable patty, Dynamix, Baramati for cheese and Trikaya, Maharashtra, Agriflora, Ooty and Meena Agritech, Nainital for iceberg lettuce. Mc Donald's is always in front to provide the latest and modern agriculture and processing technology to these supply chain partners. Radhakrishna Foodland operates distribution centres for Mc Donald's Restaurants across India. The raw and finshed products are stored in rooms with different temperature zones and are finally despatched to the restaurants on the basis of their requirement. This Company has both cold & dry storage and transportation facilities. All these supply chain partners work cohesively to ensure that the final product reaches the customer consistently each time and every time. At their level, every care is taken to guard against any interruptions in the cold chain, which can break the link and have a detrimental effect on the quality of the product. The supply chain synergy in this case emerges in the form of immense benefit to farmers, as they can earn more, at one end and enabling customers at retail counters to get the highest quality food products, absolutely fresh and at great value. More products reaching the market fresher and quicker also benefit the economy.

## CONCLUSIONS

Supply chain synergy is the net output of effective collaborative relationship in the supply chain. As it appears in many forms, the end result of the synergy is very immense. Improvement of relationship by sharing ideas and goals and increasing mutual trust among supply chain stake holders with the help of information technology can amplify the synergized effect many fold. Indian corporates, whether they are in the retail, FMCG, automobile or IT, can achieve corporate excellence through supply chain synergy. This is essential for the success of the new national programme of 'Make in India'.

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